3-17-1977

Toward Understanding Our Economic System A Coin Has Two Sides

Robert J. Antonides
South Dakota State University

COOPERATIVE EXTENSION SERVICE *United States Department of Agriculture Cooperating*

Economics Newsletter

Editor:
Robert J. Antonides
Extension Economist

Economics Department South Dakota State University Brookings 57006 (605) 688-4141

No. 108 March 17, 1977

TOWARD UNDERSTANDING OUR ECONOMIC SYSTEM
A Coin Has Two Sides

THE FARM PARITY INDEX since January 1 of this year includes as part of the calculation, the Consumer Price Index. It was decided that farm family living costs were so nearly similar to urban families that the separate family living index formerly computed by the Statistical Reporting Service for the Parity series was duplication. The CPI is published monthly by the Bureau of Labor Statistics.

DESPITE DROUGHT AND OTHER PROBLEMS, the U.S. Department of Agriculture reports that the average per-acre values of South Dakota farm real estate rose 17 percent between November 1975 and November 1976. The average value was $180 per acre, the same as the U.S. average. On an index basis, the South Dakota and U.S. averages have both increased 168 percent since 1967. High land prices are hard on beginning farmers but universally liked by current owners, for one thing because it gives them a greater equity in their business and frequently better borrowing leverage.

ECONOMIC GROWTH OR STAGNATION? In 1940 there were about 51 million people in the labor force in the United States. In only 36 years, there were 93 million - an increase of 42 million, or 82 percent! In the earlier years 16 and 17 year olds, not counted, numbered about 6 million. In any case these are staggering figures for those concerned with maintaining full employment and a balanced growth in an expanding economy.

WOMEN IN THE U.S. LABOR FORCE in 1976 numbered 38 million and men 55 million. The average educational levels of each are now 12.6 years of schooling. The percentage of high school graduates in the work force increased from 19.7 percent in 1940 to 41.6 percent in 1976. Even larger percentage increases were noted with persons having four or more years of college.

IT'S TRUE that the consumer will eat less meat when the price is high. The price rations the limited supply. Therefore, the average consumption in a given year does not necessarily reflect consumer preferences but the amount that was put on the market.

WHEN SHOULD THE GROCERYMAN CHANGE HIS PRICES? Let's say it is your store and you have 98 one-pound cans of coffee on the shelf with a retail price of $2.25 marked on them. You received a shipment today with a bill for $2.50 per pound and your new order sheet says the next shipment will cost you $3.00. The latest news reports are that a major firm announces that its wholesale price will be $3.75 and you know it will cost you more than that delivered from your distributor. You'd like to show some profit, too. What would you do? Coffee, today, is a good example of one of the storekeeper's daily dilemmas.

AFTER THIS YEAR'S DROUGHTS, BLIZZARDS, FREEZES AND FLOODS, will weather forecasting become an even more integral part of economic forecasting? It has been adequately demonstrated this year that weather affects more than just crop and livestock production, particularly when the whole country is affected by adverse conditions. The question is: how do you include such things in economic forecasting?

TAKING RISKS of financial gains or losses is basic to our economic system. Farmers know it. Businessmen know it. Even savers balance in their minds lower, guaranteed short-term interest rates and ready availability against

long-term investments that have higher potential gains or losses. Depending on their individual circumstances and personalities, one person wants more "insurance"against risks than the next. We pay a relatively small premium for insurance to protect our family against the possibility that we could be one of a statistically predictable number of people to die a natural death this year. When the risks are very large and/or cover a lot of events that cannot be accurately predicted, such as war, most insurance companies are not large enough to handle the potential losses alone. So either several companies go together to spread their individual risks or it may take government to handle the possibilities of catastrophes. Drought insurance might be another example.

A PROGRESSIVE TAX is defined as one where the tax rate increases as income increases, such as our income tax. A REGRESSIVE tax is one that takes a smaller proportion of income as income increases. Our state sales tax is a PROPORTIONAL tax of 4¢ on each dollar spent for taxed goods and services; but it is considered regressive because people with higher incomes do not usually spend as much for taxed goods or may be able to avoid it in some way. Therefore, it takes less of their incomes. PROPERTY TAXES are usually "justified" by trying to relate them more directly to "BENEFITS RECEIVED" such as police protection and grade and high schools. Lawmakers have to wrestle with the problems of equity in collecting taxes as well as how they are spent.

DURING HIS FIRST DAYS IN OFFICE, President Carter requested Congress to pass legislation that would in effect give almost everyone a $50 gift. Using an estimate of 600,000 people in South Dakota that would be eligible for it, this would amount to about $30,000,000 returned to the state. Depending upon how the money was used, there would be some multiplying effects in addition.If it were all spent for goods and services in the state at retail, the initial effect could result in an increase of $1.2 million in extra sales tax revenues to the state. The multipliers might cause these amounts to double.The key is what the recipients do with the money and the influence it has on expectations of investors and producers. This is considered a "one-shot" affair to give the economy a boost by giving consumers more to spend.

A SECOND PROPOSAL is to "permanently" reduce income taxes. The benefits in this case would likely go to both people and business and could give more to some than others. The probable net results of this is harder to trace. The intent of the proposal appears to be to directly encourage investment, jobs, and production, thus increasing incomes and, in turn, consumption expenditures and savings. The debates center around short- and long-run effects on the various segments of this complicated economy.

THE SOUTH DAKOTA STATE SALES TAX REVENUES for fiscal 1976 were almost $93 million. The motor fuel tax was the second largest source of revenue at nearly $36 million. These were followed by $9.1 million for cigarette taxes; $7 million for beer and liquor taxes.Other revenues in the millions of dollars were: inheritance, $4.8; special fuel users, $3.5; and bank franchise, $2.0. The State Department of Revenue also collected over $10 million for cities having their own sales taxes. The Department's total collections were $177 million.

BANKERS DO NOT PRINT MONEY, but they do influence the money supply be creating credit - demand deposits (checking accounts). A banker can lend you some money from others' savings. Then you have more to spend without anyone else having any less. He, too, uses the principle of large numbers. He can lend some of the savings deposits because not all savers are likely to want their money back all at the same time. The Federal Deposit Insurance Corporation assumes this risk. Our Federal Reserve System controls how much of this lending bankers can do. It, also, thereby influences the money supply.

Robert J. Antonides, Extension Economist--Marketing